

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-02 H-02

PA-02 PRS-01 USIA-15 CIAE-00 COME-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 NEA-09 /120 W

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R 241804Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7499

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 01308

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY 23)

REF.: BONN 01201

1. REDISCOUNT QUOTAS INCREASED; AS REPORTED REFTTEL, THE CENTRAL BANK COUNCIL DECIDED ON JANUARY 23 TO RAISE THE REDISCOUNT QUOTA BY A TOTAL OF DM 2.5 BILLION. THIS INCREASE IS VALID ONLY THROUGH MARCH 31, A LIMITATION MADE IN EXPECTATION THAT BY THE END OF MARCH STIMULATIVE IMPULSES SHOULD BE FELT BY ANTICIPATED FOREIGN EXCHANGE INFLOWS AND SPENDING FROM GOVERNMENT COUNTERCYCLICAL
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RESERVES.

2. SUITS AGAINST BUNDESBANK OVER CLOSING OF HERSTATT:
ACCORDING TO PRESS REPORTS, PRELIMINARY HEARINGS HAVE BEEN HELD IN A FRANKFURT COURT WITH REPRESENTATIVES OF HILL SAMUEL AND CO. AND THE MUNICH BASED BANKHAUS MERCH, FINCK AND CO. REGARDING SUITS BY THE TWO BANKS AGAINST THE BUNDESBANK. THE BUNDESBANK IS INVOLVED SINCE IT IS THE MOTHER INSTITUTION OF THE LAND CENTRAL BANK OF HESSE WHICH IN AGREEMENT WITH COMMERCIAL BANKS IN LAND HESSE SERVED AS THE CLEARING CENTER FOR INTERBANK CURRENCY TRANSACTIONS. HILL SAMUEL IS SEEKING DM 21 MILLION AND MERCH, FINCK DM 2.6 MILLION IN RESTITUTION FOR LOSSES INCURRED WHEN ON THE DAY OF THE HERSTATT CLOSURE THE LAND CENTRAL BANK OF HESSE CONTINUED THE CLEARING OPERATION THROUGH 1:30 P.M. THE USUAL CUT-OFF TIME FOR SUCH OPERATIONS. THE BANKS CLAIM THAT, WHEN IT BECAME APPARENT AROUND NOON THAT HERSTATT COULD NOT BE SALVAGED, HILL SAMUEL AND MERCH, FINCK FOREIGN EXCHANGE CONTRACTS SHOULD NOT HAVE BEEN FORWARDED BY THE CLEARING HOUSE IN FRANKFURT AND HENCE THE SUMS THEREOF SHOULD NOT BECOME PART OF THE HERSTATT LIQUIDATION ASSETS. THE LAWYER REPRESENTING THE BUNDESBANK, ACCORDING TO THE PRESS, WAS OF THE OPINION THAT WHAT THE CLEARING HOUSES KNEW OR DID NOT KNOW AT ANY PARTICULAR TIME IS IRRELEVANT. HE CONTENDED THAT IT WAS NOT THE POSITION OF THE BUNDESBANK TO PROTECT THE INTEREST OF PARTICULAR BANKS BUT RATHER WAS TO FUNCTION AS A COMPLETELY NEUTRAL GO BETWEEN FOR ALL BANKS . HE IS QUOTED AS ARGUING THAT "IF, AS THE PLAINTIFFS CONTEND, HERSTATT WAS IN EFFECT EXCLUDED FROM THE CLEARING CYCLE PRIOR TO THE 1:30 P.M. OR THEREAFTER, THEN DM 130 MILLION WHICH HERSTATT TRANSFERRED TO OTHER BANKS ON THIS DAY WOULD HAVE ACCRUED TO THE HERSTATT LIQUIDATION SUM."

3. NEW STATE SECRETARY FOR TAX POLICY IN FINANCE
MINISTRY:SPD BUNDESTAG MEMBER RAINER OFFERGELT HAS BEEN NAMED TO SUCCEED KONRAD PORZNER AS STATE SECRETARY IN THE FINANCE MINISTRY. THE 37 YEAR OLD OFFERGELT, WHO SERVED FOR NINE MONTHS IN 1972 AS STATE SECRETARY IN UNCLASSIFIED

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THE ECONOMICS AND FINANCE MINISTRY (PRIOR TO THE CREATION OF SEPARATE MINISTRIES), WILL BE RESPONSIBLE FOR TAX REFORM AND TAX POLICY AND, IN ADDITION, SERVE AS THE LIAISON BETWEEN THE FINANCE MINISTRY AND THE SPD BUNDESTAG FACTION.

4. FOREIGN EXCHANGE MARKET: DESPITE SUPPORT PURCHASES THROUGHOUT THE WEEK BY THE BUNDESBANK THE DOLLAR DROPPED

STEADILY.

. THE FINANCIAL PRESS

ATTRIBUTED THE DEVELOPMENTS IN PART TO PRESIDENT
FORD'S REMARKS REGARDING POSSIBLE RESUMPTION OF
HOSTILITIES IN THE MIDDLE EAST AND TO POSSIBLE IN-
CREASED U.S. ASSISTANCE TO VIETNAM. DURING THE RE-
PORTING WEEK SPOT AND FORWARD DOLLARS DEVELOPED AS

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R 241804Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7500

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

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FOLLOWS:

FORWARD DOLLARS
(DISCOUNTS IN PCT. P.A.)

SPOT DOLLARS ONE-MONTH THREE-MONTH

JAN 17	DM 2.3790	-0.3	-0.8
20	2.3780	-0.5	-1.1
21	2.3550	-0.3	-0.9
22	2.3400	#0.5	-0.5
23	2.3300	0.0	-0.9

WITHIN THE JOINT FLOAT, THE DUTCH GUILDER AND THE BEL-
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GIAN FRANC WERE ABOVE THEIR DM CENTRAL RATES. NONE OF
THE CURRENCIES IN THE FLOAT REACHED THEIR UPPER DM INTER-
VENTION RATE.

5. MONEY MARKET: DURING THE REPORTING WEEK FRANKFURT
INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

JAN 17	7.7-7.9	7.4-7.7	7.5-7.7
20	7.6-7.8	7.4-7.6	7.4-7.7
21	7.9-8.0	7.4-7.6	7.4-7.7
22	7.9-8.1	-	-
23	8.0-8.1	-	-

6. MONETARY RESERVES: IN THE FIRST WEEK OF JANUARY
(JANUARY 1-7) BUNDESBANK MONETARY RESERVES INCREASED
BY DM 0.5 BILLION TO DM 81.7 BILLION. HOLDINGS OF
LIQUID FOREIGN EXCHANGE INCREASED BY DM 179 MILLION
WHILE GERMANY'S IMF GOLD TRANCHE POSITION FELL BY
DM 11 MILLION AND GROSS LIABILITIES BY DM 331 MILLION.
IN THE SECOND WEEK OF JANUARY (JANUARY 8-15) BUNDESBANK
MONETARY RESERVES INCREASED BY DM 0.5 BILLION TO DM 82.2
BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE INCREASED
BY DM 463 MILLION AND GERMANY'S IMF GOLD TRANCHE
POSITION BY DM 1 MILLION. GROSS LIABILITIES FELL BY
DM 38 MILLION AND NOTES AND COINS BY DM 2 MILLION.

7. BANK LIQUIDITY: DURING THE FIRST WEEK OF JANUARY
BANK LIQUIDITY INCREASED BY DM 2.9 BILLION. THE MAJOR
FACTOR INCREASING LIQUIDITY WAS A DECLINE IN THE BANKS'
HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 3.1 BILLION).
THE USUAL DECLINE IN CURRENCY IN CIRCULATION AT THE BE-
GINNING OF A MONTH CONTRIBUTED (DM 1.1 BILLION). BANK
LIQUIDITY INCREASED FURTHER BY THE ABOVE-MENTIONED
INCREASE IN MONETARY RESERVES, DECLINES IN OFFICIAL NET
ASSETS HELD AT THE BUNDESBANK (DM 0.1 BILLION)
AND SPECIAL OFFICIAL NET ASSETS (DM 0.7 BILLION). OTHER
FACTORS REDUCED LIQUIDITY BY DM 2.6 BILLION. DURING

THE FIRST WEEK IN JANUARY BANKS REDUCED LOMBARD
BORROWINGS BY DM 2.2 BILLION AND REDISCOUNT BORROWINGS
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BY DM 0.7 BILLION. DURING THE SECOND WEEK OF JANUARY
BANK LIQUIDITY DECREASED BY DM 2.3 BILLION. THE PRIN-
CIPAL FACTORS REDUCING LIQUIDITY INCLUDE THE
DM 3.6 BILLION. INCREASE IN OFFICIAL NET ASSETS HELD
AT THE BUNDESBANK AND THE INCREASE OF DM 3.1 BILLION IN
BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. FACTORS
INCREASING LIQUIDITY WERE A DECLINE OF DM 1.5 BILLION

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R 241804Z JAN 75

FM AMEMBASSY BONN

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INFO AMEMBASSY BERN

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IN CURRENCY IN CIRCULATION, A DECLINE OF DM 1.1 BILLION
IN SPECIAL OFFICIAL ASSETS AND THE ABOVE-MENTIONED
INCREASE IN MONETARY RESERVES. OTHER FACTORS INCREASED
LIQUIDITY BY DM 1.3 BILLION, NET. THE BANKS INCREASED
LOMBARD BORROWINGS AT THE BUNDESBANK BY DM 1.6 BILLION
AND RAISING REDISCOUNT BORROWINGS BY DM 0.7 BILLION.

8. BOND MARKET: DURING THE REPORTING WEEK THE FAZ
AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC
BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

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JAN 17	9.84	9.62	9.30
20	9.81	9.54	9.26
21	9.80	9.59	9.24
22	9.74	9.55	9.21
23	9.77	9.54	9.20

ON JANUARY 23 THE SCHLESWIG-HOLSTEIN STATE GOVERNMENT
WILL OFFER A DM 200 MILLION LOAN (CONDITIONS: COUPON
9.25 PERCENT; ISSUE PRICE 99 7/8 PERCENT; MATURITY 8
YEARS). THIS LOAN WILL BE FOLLOWED BY A DM 200 MILLION
LOAN OF THE LOWER SAXONIAN STATE GOVERNMENT (COUPON
9.25 PERCENT; OTHER CONDITIONS NOT YET KNOWN). THE
SWEDISH SANDVIK AB IS PLANNING TO FLOAT A DM 75
MILLION BOND. ACCORDING TO THE DRESDNER BANK, THE
BOND WILL CARRY A COUPON OF 9.5 PERCENT AND A MATURITY
OF 8 YEARS, THE ISSUE PRICE WILL BE FIXED ON JANUARY 29.
DURING THE COMING DAYS THE CITY OF GOETEBORG
(SWEDEN) WILL ISSUE A DM 50 MILLION BOND IN PRIVATE
PLACEMENT (CONDITIONS: COUPON 9.75 PERCENT; ISSUE PRICE
100 PERCENT; YIELD
TO MATURITY 9.75 PERCENT).
HILLENBRAND

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